

A STUDY ON TREND OF NON- PERFORMING ASSETS IN DINDIGUL URBAN COOPERATIVE BANK

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ABSTRACT

Urban Cooperative Banks play an important role as financial intermediaries in catering to the credit requirements of both priority sector and weaker section communities. All the loans provided by UCBs are broadly classified as secured and unsecured loan. The secured and unsecured loan of NPA growth involves reduced income from assets and the necessity of provision which reduce the overall profits of share holder's values. This paper highlights the trend of Gross NPA, Net NPA and to analyze the trend of secured and unsecured loans of NPA in Dindigul UCB. This paper found out the reason for increasing NPA and what are the management efforts are taken for reduce the NPA in during the study period.

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INTRODUCTION

The UCBs have been playing an important role in the socio economic development of the country by making available institutional credit at affordable cost particularly in the urban and semi urban areas. As on March 2011 there were 128 UCBs function in all over Tamil Nadu and which majority of Non-Schedule UCBs functioning. This bank are traditionally centered on communities, localities and work place groups, and they essentially lend to agriculture and non agriculture purpose and particularly small farmers, small traders, business man, artisans, factory workers, salaried people and persons of small means. The growth of NPA as syndrome though not new to the cooperative banking structure has been causing trouble and confusion to UCBs during recent past.

1.1 Conceptual Framework of NPA and Asset Classification

A 'Non Performing Asset' (NPA) was defined as credit in respect of which interest and / or installment of principal has remained 'past due' for a specific period of time. Non Performing Asset means an asset of account of borrower, which has been categorized by a bank or financial institution as sub-standard, doubtful or loss asset, in accordance with the directions relating to asset classification issued by RBI.

S.No	Classification	Definitions
1.	Standard assets	Standard asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should be an NPA
2.	Sub-Standard assets	With effect from March 31, 2005 an asset would be classified as sub-standard if it remained NPA for a period less than or equal to 12 months in such cases, the current net worth of the borrowers/ guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such assets will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected. An asset where the terms of the loan agreement regarding interest and principal have been re-negotiated or rescheduled after commencement of production, should be classified as sub-standard and should remain in such category for at least 12 months of satisfactory performance under the re-negotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory compliance of this condition.
3.	Doubtful Assets	With effect from March 31, 2005, an asset is required to be classified as doubtful, if it has remained NPA for more than 12 months. For Tire I banks, the 12- month period of classification of a substandard asset in doubtful category is effective from April 1, 2009. As in the case of substandard assets, rescheduling does not entitle the bank to upgrade the quality of an advance automatically. A loan classified as doubtful has all the weakness inherent as that classified as sub-standard, with the added characteristic that the weakness make collection or liquidation in full, on the basis of currently known facts, conditions and values.
4.	Loss Assets	A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Co-operation Department or by the RBI inspection but the amount has not been written off, wholly or partly.

1.2 Types of NPA

1.2.1 Gross NPA

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. Gross NPA ratio is the ratio of gross NPA to Gross advance. It is calculated with the help of following ratio; **Gross NPAs Ratio = Gross NPAs / Gross Advances**

1.2.2 Net NPA

Net NPA is worked out by deducting the provisions held in respect of the Non performing assets from the figure of gross NPAs. Net advances arrived at by deducting the provisions from gross advances. The net NPA percentage is the ratio of net NPA to net advances expressed in terms of percentage. It is calculated with the help of following ratio; **Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions**

1.3 Objective of the study

1. To highlight the trend of Gross NAP and Net NPA in DGL UCB
2. To analyze the trend of secured loan of NPA in DGL UCB
3. To analyze the trend of Unsecured Lon of NPA in DGLUCB

METHODOLOGY

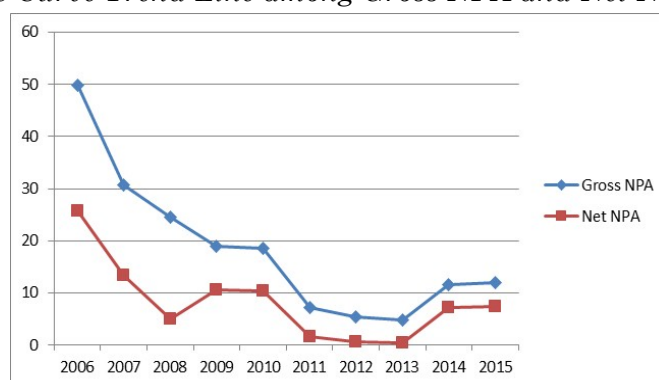
Aim of the present research paper is to analyze the trends in NPAs in terms of values, Gross and Net NPAs as a percentage of Gross advances and Net advances, Gross and Net NPAs as a percentage of Total Assets respectively. The study is based on secondary data. The paper discusses the conceptual framework of NPA and it also highlights the trend of NPA in Dindigul urban cooperative bank during the period of (2006 to 2015) 10 years data. The primary data were collected from dindigul urban cooperative bank auditing report and RBI inspection report and secondary data were collected from RBI website and RBI Chennai.

RESULTS

3.1 Trend of Gross NPA and Net NPA in DGL UCB

To highlight the percentage of Gross and Net NPAs in dindigul urban cooperative bank over the preceding ten years(2006-2015) period is detailed in the below graph.

Graph – I: Year Wise Curve Trend Line among Gross NPA and Net NPA



Interpretation

- (i) In the year 2006-2007 the gross and net NPA as per auditing report Rs (477.4) (49.9%) and 166.29 lakh (25.7%) respectively. In this year the dindigul urban cooperative bank was declared as weak bank(Ref No:UBD(che)/ p & o / 186/15.03.03/2005-06 Rehabilitation of weak banks submission of action plan revival)
- (ii) After the year 2007 based on the RBI inspection as on 31.03.07 the banks classified into grade II category. (RBI (che) UBD No. 1 & L/1992/12.01.0307/2007-08.)
- (iii) In the year 2011-2013 the graph shows the best performance of the gross NPA is below 7% and Net NPA level is below 3%. so the bank was managing the level of NPA. Because of taking effort to recover the NPA.
- (iv) In the year 2014- 2015 the gross NPA and Net NPA level was 11.96% increased because of the bank was issued more number of secured loan and the standard asset is slippage to sub standard so the bank take action to recovery the NPA.

3.2 Trend of Secured Loan for Gross NPA and Net NPA In DGL UCB

The secured loan of Gross and Net NPAs outstanding and as a percentage to Advances of Dindigul urban cooperative bank over the preceding ten years(2006-2015) period is detailed in the below mentioned tables

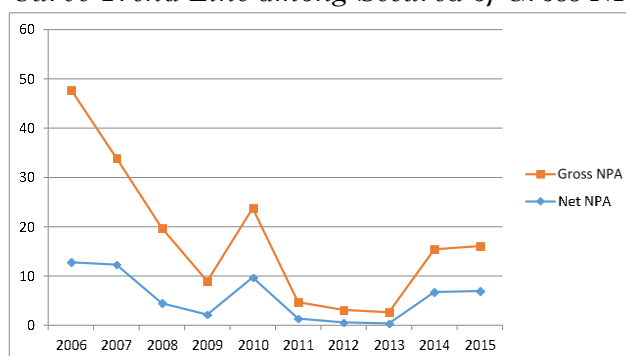
Table – I: Trends of NPA of Secured Loan in Dindigul Urban Cooperative Bank

Year	Gross Advance	Gross NPA Amount	Net Advance	Net NPA
2006	101120321	27096832	10934785	90674345
2007	102360743	26064735	11831689	88127697
2008	94594999	17607012	3962841	80950828
2009	105032734	14340734	2408828	102623906
2010	132470380	19666192	13206003	126010191
2011	146552256	5133311	2451096	143870041
2012	171251782	4496768	1460866	168215880
2013	197037334	4677007	1348960	193709287
2014	209185255	18948492	14251604	204488367
2015	223558956	21182612	15422599	226939916

Interpretation of secured loan Source (DGL UCB annual report)

The above table depicts the amount of Gross Advances, Gross NPA and Net Advances, Net NPA during the period of 2006 to 2015. The amount of Gross advances of has increased from Rs. 10 crore in (2006) to 22 crore in (2015). Further, the amount of NPA has also decreased from Rs. 2.7 Cr to Rs.46 lakhs during the period (2006-2012) but the last two years 2014-2015 the NPA was again rs 22 Cr increased. Similarly, the amount of Net advances of has increased from 1.09 cr to 1.54 cr and net NPA 9 cr to 22 cr is also showing the rising trend from in 2006 to 2015.

Graph – II: Year Wise Curve Trend Line among Secured of Gross NPA and Net NPA



Interpretation

- In the year 2006 the gross NPA was too high (47.8) this graph shows that majority number of the secured loan was create the NPA after the year 2007 the gross NPA and Net NPA was decreased up to 2009
- In the year 2010 the NPA level was increased (14.07). in that year the secured loan was issue more
- In the year 2011 to 2013 the Gross NPA level was below 3% and the Net NPA level was below 1%.

(iv) In the year 2014-2015 the NPA level increased above 10%

3.3 Trend of Unsecured Loan for Gross NPA and Net NPA In DGL UCB

The unsecured loan of Gross and Net NPAs outstanding and as a percentage to Advances of dindigul urban cooperative bank over the preceding ten years(2006-2015) period is detailed in the below mentioned tables

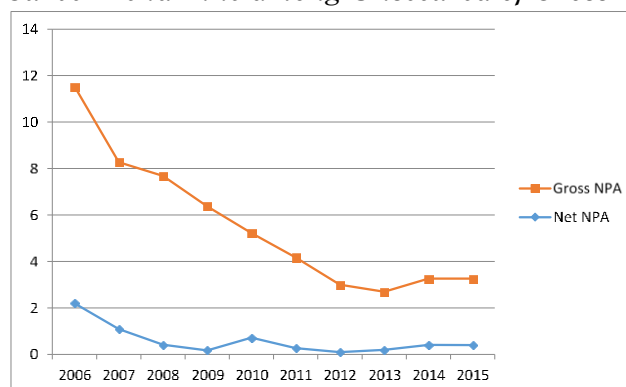
Table – II: Trends of NPA of Unsecured Loan in Dindigul Urban Cooperative Bank

Year	Gross advance	Gross NPA amount	Net advance	Net NPA
2006	7856452	8187534	15989	77362859
2007	7999991	7893195	13435	82739846
2008	7520582	7406406	11250	94720425
2009	7332943	6959971	10800	105416506
2010	7314312	6279226	346194	133851660
2011	8247348	6047618	403932	149155912
2012	7633979	5189730	40208	173736239
2013	9546668	5183782	52961	206070981
2014	9470261	6228041	887290	213314765
2015	9140973	6638235	915423	221423436

Interpretation Source (DGL UCB annual report)

The above table depicts the amount of Gross Advances, Gross NPA and Net Advances, Net NPA during the period of 2006 to 2015. The amount of Gross advances has increased from Rs. 78lakhs in (2006) to 91lakhs in (2015). Further, the amount of NPA has also decreased from Rs. 81lakhs to Rs.51 lakhs during the period (2006-2012) but the last two years 2014-2015 the NPA was again rs 66 lakh increased. Similarly, the amount of Net advances of has increased from 15 k to 9 Lakh and net NPA 7 cr to 22 cr is also showing the rising trend from in 2006 to 2015

Graph-III: Year Wise Curve Trend Line among Unsecured of Gross NPA and Net NPA



Interpretation

- In the year 2006 the unsecured loan of Gross NPA (11.25) level was high and after the year the Gross NPA level was reduce because the bank was not issue more number of unsecured loan
- In the year 2006 the DGL UCBs issued (3654) number of unsecured loan. In that year the 2937 unsecured loan was NPA

(iii) In the year 2013 the unsecured loan was managed and gross NPA level was below 3%

(iv) In the year 2014-2015 the gross NPA level is 3.78 it was slightly increased

FINDINGS OF THE STUDY

Year	Reason for increasing NPA	Management activities of the UCB
2006-2008	<ol style="list-style-type: none"> 1. The DGL UCB was not framed separate loan policy and advances are granted in terms of the rules and regulations 2. The bank was not satisfactory of the internal system and control 3. In the year 2008 the DGL UCB was declared as weak bank after that the bank take some efforts so that the bank was increased Grade II but the bank should not declared any dividend to the members 4. Lack of technology in the year 5. Insufficient of staff 	<ol style="list-style-type: none"> 1. In the year of 2006- 2008 the loan had shown a declining trend due to the banks decision to restricted loans and advances to loans against security of gold jewels and against its own deposit and closure of loans under the interest reduction scheme 2. The bank against fixed deposit and jewel loans and mainly the bank was not ready to sanction on secured loan 3. In the year 2007 the bank may continue its recovery efforts to reduce its G.NPA further and also ensure that there were no fresh accretion and timely action for recovery of the remaining paried loan
2009-2010	<ol style="list-style-type: none"> 1. In the year 2010 DGL UCB CD ratios 105% 2. High cost deposit- the bank accept the deposit amount 10.0% 3. The bank was not framed Investment policy 4. Having insufficient staff the bank take full effort to collect of overdue NPA loans are personal contact 5. The unsecured loan such as personal loan, surety loan account holders are shifted their resident to some where place. So its difficult to trace out immediately. So the bank concentrate on secured loan only 	<ol style="list-style-type: none"> 1. post sanction supervision- it was marked improved in the quality of post sanction supervision was evident form the decrease of G.NPA now the NPA amount was reduce to 120.66lakh as on 28.02.10 2. measures taken for improving quality assets – the bank should initiate appropriate action and pursue with the defaulters especially top NPA category rs 25000 above on a priority sector basis the bank had taken all initiatives to rope in all the eligible by the state govt 3. resolve to send the certificate that all irregular activities, violations of RBI directions, Guidelines deficiency etc 4. Ref UBD(che) I & L/1713/12.04.0307-B+ satisfactory 2009-2010
2011-2013		<ol style="list-style-type: none"> 1. In this year the DGL UCB has to maintain the best management practices of Gross NPAS is less than 7% and Net NPA is not more than 3% 2. Total deposit amount was increased

		3. The bank loans and advances increased
2014-2015	1. In this year the Gross NPA of the bank had increased from 5.4% as on to 11.5% 2. C.D ratio increase 86.6%. still it was higher than the optimum level 70% 3. The bank had not framed a separate KYC policy and the bank had not initiated any steps to complete the risk categorization of customers	1. The bank had maintain remained CRR and SLR once daily basis during the period under the present inspection 2. The CRAR of the bank stood 19.8% as on the march 2014

CONCLUSION

On the basis of above observation and analysis of the trend of NPA in Dindigul Urban cooperative bank. This study is found that the DGL UCBs have over all demonstrated a trend of continued good performance and profitability. The above analysis the level of NPAs is high at the initials years and currently the banks would be expected to bring down their NPA and the bank also maintain the secured and unsecured level of NPA. This can be achieved by good credit appraisal procedures, effective internal control systems along with their efforts to improve asset quality in their balance sheets. But even the last two years of NPA is alarming with DGL UCB bank, since NPA being as an important parameter for assessing financial performance of bank

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